



**SOCIETY OF FINANCIAL EXAMINERS®**

**CFE 1 – Examination Methods and  
Management STUDY GUIDE**

**Effective July 2016**

**The passing score for this exam is 74.**

TEXT- This study guide is intended to be a tool for identifying key areas of emphasis in studying for the CFE 1 exam. **This test covers materials and concepts in the 2016 Edition of the *Financial Condition Examiners Handbook (FCEH)* published by the NAIC.** The study guide should be used as a starting point and not as a complete listing of topics that will be covered within the exam. Note: Topics within the FCEH that are not shown may be covered less extensively in the exam.

CFE 1 focuses primarily on the materials in the FCEH pertaining to risk focused examinations. The FCEH serves as the sole source of examination material for this examination. The FCEH and this study guide are required reading for the CFE 1 course. All of the questions on the test have been developed from information included in the FCEH. The study guide has been developed to assist the examiner in focusing on the concepts and sections contained in the FCEH.

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# INTRODUCTION

When reviewing Section 1 of the Handbook, regulators should have an understanding of:

## I. INTRODUCTION

- HISTORY OF RISK ASSESSMENT AND PROCESS OF CONDUCTING EXAMINATIONS
- OVERVIEW OF RISK-FOCUSED SURVEILLANCE PROCESS
- RISK-FOCUSED SURVEILLANCE CYCLE
- GOALS OF RISK-FOCUSED EXAMINATIONS
- RISK-FOCUSED EXAMINATION PROCESS

## SECTION 1 – GENERAL EXAMINATION GUIDANCE

When reviewing Section 1 of the Handbook, regulators should have an understanding of:

### I. EXAMINATION OVERVIEW

- EXAM CLASSIFICATIONS DEFINED
- GENERAL PROCEDURES FOR SCHEDULING AN EXAMINATION
- COORDINATING EXAMINATIONS ON MULTI-STATE INSURERS
- COORDINATION OF HOLDING COMPANY GROUP EXAMS
- REVIEW AND RELIANCE ON ANOTHER STATE'S WORKPAPERS
- LIMITED-SCOPE EXAMINATIONS
- INTERIM WORK

### II. EXAMINATION PERSONNEL

### III. GENERAL EXAMINATION CONSIDERATIONS

- GENERAL INFORMATION TECHNOLOGY REVIEW
- MATERIALITY
- EXAMINATION SAMPLING
- BUSINESS CONTINUITY
- USING THE WORK OF A SPECIALIST
- OUTSOURCING OF CRITICAL FUNCTIONS
- USE OF INDEPENDENT CONTRACTORS ON MULTI-STATE EXAMINATIONS

### IV. STANDARD EXAMINATION PROCEDURES

### V. REINSURANCE REVIEW

- EVALUATION OF RISK TRANSFER
- CREDIT FOR REINSURANCE GUIDELINES
- REINSURANCE BALANCES RECOVERABLE

- TERMINATION OF REINSURANCE AGREEMENTS
- VI. SPECIAL CONSIDERATIONS FOR RISK RETENTION GROUPS
- VII. SPECIAL CONSIDERATIONS FOR TITLE INSURERS
- VIII. SPECIAL CONSIDERATIONS FOR SEPARATE ACCOUNTS
- IX. REPORTING EXAMINATION PROGRESS AND FINDINGS
- THE REPORT OF A FULL-SCOPE EXAMINATION
  - THE MANAGEMENT LETTER
  - THE REPORT OF A LIMITED-SCOPE EXAMINATION
  - TIMELINESS OF EXAMINATION REPORTS
  - POST-EXAMINATION FOLLOW-UP PROCEDURES
- X. REVIEWING AND UTILIZING THE RESULTS OF AN OWN RISK AND SOLVENCY ASSESSMENT
- BACKGROUND INFORMATION
  - GENERAL SUMMARY OF GUIDANCE FOR EACH SECTION
  - REVIEW OF SECTION I – DESCRIPTION OF INSURER’S RISK MANAGEMENT FRAMEWORK
  - REVIEW OF SECTION II – INSURER’S ASSESSMENT OF RISK EXPOSURE
  - REVIEW OF SECTION III – GROUP ASSESSMENT OF CAPITAL
  - ORSA DOCUMENTATION TEMPLATE
  - UTILIZATION OF ORSA RESULTS IN THE REMAINING PHASES OF THE EXAMINATION

## SECTION 2—RISK-FOCUSED EXAMINATION PROCESS

When reviewing Section 2 of the Handbook, regulators should have an understanding of:

### I. PHASE 1 – UNDERSTAND THE COMPANY AND IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED

- PART 1: UNDERSTANDING THE COMPANY
  - STEP 1: GATHER NECESSARY PLANNING INFORMATION
  - STEP 2: REVIEW OF GATHERED INFORMATION
  - STEP 3: ANALYTICAL AND OPERATIONAL REVIEWS
  - STEP 4: CONSIDERATION OF INFORMATION TECHNOLOGY RISKS
  - STEP 5: UPDATE THE INSURER PROFILE SUMMARY
- PART 2: UNDERSTANDING THE CORPORATE GOVERNANCE STRUCTURE
- PART 3: ASSESSING THE ADEQUACY OF THE AUDIT FUNCTION
- PART 4: IDENTIFYING KEY FUNCTIONAL ACTIVITIES
- PART 5: CONSIDERATION OF PROSPECTIVE RISKS FOR INDICATIONS OF SOLVENCY CONCERNS

### II. PHASE 2 – IDENTIFY AND ASSESS INHERENT RISK IN ACTIVITIES

- IDENTIFYING THE RISK
- IDENTIFYING THE TYPE OF RISK
- ASSESSING THE INHERENT RISK
- REVIEWING INHERENT RISKS AND FINALIZING EXAMINATION PLANNING

### III. PHASE 3 – IDENTIFY AND EVALUATE RISK MITIGATION STRATEGIES (CONTROLS)

- IDENTIFYING RISK MITIGATION STRATEGIES / CONTROLS
- EVALUATING RISK MITIGATION STRATEGIES / CONTROLS

- CONSIDERATION OF SMALL /MEDIUM SIZED INSURERS
- EXAMINER USE OF SARBANES-OXLEY DOCUMENTATION

IV. PHASE 4 – DETERMINE RESIDUAL RISK

V. PHASE 5 – ESTABLISH / CONDUCT DETAIL EXAMINATION PROCEDURES

- ESTABLISH / CONDUCT DETAIL EXAMINATION PROCEDURES
- RISKS OTHER THAN FINANCIAL REPORTING
- FINANCIAL REPORTING RISKS
- EXAMINATION CONSIDERATIONS

VI. PHASE 6 – UPDATE PRIORITIZATION AND SUPERVISORY PLAN

- PRIORITIZATION
- SUPERVISORY PLAN

VII. PHASE 7 – DRAFT EXAMINATION REPORT AND MANAGEMENT LETTER

- EXAMINATION REPORT
- MANAGEMENT LETTER
- SUMMARY REVIEW MEMORANDUM
- LETTER OF REPRESENTATION

## SECTION 3—EXAMINATION REPOSITORIES

When reviewing Section 3 of the Handbook, regulators should have an understanding of:

- Intended use of the Repositories
- Basic structure of the Repositories (e.g. what kind of information can regulators find within each repository)
- Difference between a test of control and a test of detail (several of the questions will be about specific tests addressing risks and often times, understanding this difference can help in identifying the correct response)

## SECTION 4—EXAMINATION EXHIBITS

When reviewing Section 4 of the Handbook, regulators should have an understanding of:

- How each of the following Exhibits is intended to be used within an examination as well as with the sort of content included within each Exhibit listed:
  - EXHIBIT A: EXAMINATION PLANNING PROCEDURES CHECKLIST
  - EXHIBIT B: EXAMINATION PLANNING QUESTIONNAIRE
  - EXHIBIT C: EVALUATION OF CONTROLS IN INFORMATION TECHNOLOGY (IT)
  - EXHIBIT E: AUDIT REVIEW PROCEDURES
  - EXHIBIT H: INSURER PROFILE SUMMARY TEMPLATE
  - EXHIBIT I: EXAMINATION PLANNING MEMORANDUM
  - EXHIBIT M: UNDERSTANDING THE CORPORATE GOVERNANCE STRUCTURE
  - EXHIBIT V: OVERARCHING PROSPECTIVE RISK ASSESSMENT
  - EXHIBIT Z: EXAMINATION COORDINATION
  - EXHIBIT AA: SUMMARY REVIEW MEMORANDUM
  - EXHIBIT CC: ISSUE/RISK TRACKING TEMPLATE
  - EXHIBIT DD: CRITICAL RISK CATEGORIES
- Questions may also be asked on the remaining Exhibits, though they will not be tested as extensively